1968 ANNUAL REPORT

consolidated building corporation limited

1968 annual report

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CORPORATE DIRECTORY

DIRECTORS

JOHN S. GAIRDNER	J. HOWARD HAWKE
W. BERNARD HERMAN Q.C.	GERALD S. HORGAN Q.C.
MELVILLE O'DONOHUE Q.C.	JOHN D. FIENBERG
LAWRENCE SHANKMAN	LOUIS STULBERG
NOEL ZELDIN	

OFFICERS

Chairman of the Board and President - - - LAWRENCE SHANKMAN
Vice President and Secretary-Treasurer - - - LOUIS STULBERG
Vice President, Finance - - - - - - - - VERNON HOWE, B.Comm., C.A.
Vice President, Construction - - - - - - JAMES McFARLANE
Vice President, Land Development - - - - SOMER RUMM

AUDITORS

Clarkson, Gordon & Co., Chartered Accountants — Toronto

TRANSFER AGENT AND REGISTRAR

Guaranty Trust Company of Canada
Toronto, Montreal, Winnipeg, Vancouver

Lawrence Shankman

PRESIDENT'S REPORT To The Shareholders

On behalf of the Board of Directors I am pleased to submit this report on your Company's operations for the year ended February 29, 1968.

Further improvements were made in the financial position of the Company during the past year. Bank loans were reduced to $1,923,000 from $3,023,000 at the previous year end. Accounts payable were reduced by more than $600,000. The 6½% general mortgage bonds due December 1, 1967 and outstanding in the amount of $1,474,000 at February 28, 1967 were paid. During the same period, a further $200,000 of 6¼% sinking fund debentures was purchased for cancellation.

The excess of current assets over current liabilities at year end amounted to $1,107,000, a decrease of $648,000 during the year. The decrease in funds resulted principally from the reduction in long term debt and the acceptance on the sale of real estate of mortgages which mature after two years and consequently cannot be considered as current assets. It is perhaps more significant that during this period the Company improved its cash position by $1,000,000.

The year's operations resulted in earnings of $70,062. However, the deficit of the Company increased as a result of a provision of $252,000 to reduce to estimated realizable value, a mortgage which the Company accepted in 1961. The revaluation of this mortgage coincides with an intended foreclosure procedure which, if successful, would result in the Company's acquiring the property now leased, thereby increasing by an estimated $60,000 the annual cash flow of the Company.

We have continued to make efficiencies and cost savings. Selling, general and administrative expenses amounted to $571,000 for the year, as compared to $858,000 for the previous fiscal year. At the same time, we have continued to strengthen the organization and each department of the Company is headed by people of excellent calibre.

While we are pleased with the progress which has been made during the year, we are disappointed in certain of the volumes, particularly in the housing area. Accelerated interest rates, shortage of mortgage funds and sharply rising land costs have restricted the building and marketing of the desired housing volumes. Nevertheless, we are extremely well equipped to design, build and market houses for a profit. Our system of cost control has made for a more efficient operation and enabled us to improve our profit margins. It is hoped that the majority Federal Government will be able to provide the necessary incentives and controls which will assist the availability of reasonably priced mortgage funds and the production of fairly priced lands.

The past year saw the investment department sell two of its properties — an apartment building in Victoria, British Columbia and an industrial building in Scarborough — both at satisfactory profits. Meanwhile, the Company's equity in other investment properties continued to appreciate while the profits from the operation of these properties continued to grow. Of particular note is the improvement made in the operating results of the Regency Towers Hotel. Since February of this year, major alterations were made to the hotel's lounge and dining facilities and improved profits have resulted.

Since the end of the year there have been a number of rumours concerning possible mergers, takeovers and refinancing involving the Company. I wish to stress that none of these rumours originated within the Company. We feel there are a number of profitable opportunities in land development projects in the medium and long term range. The Company cannot and should not look to its bankers for financing in these areas. Accordingly, we have attempted and will continue to try to secure financial assistance in this area whether by way of joint venture, debt or equity financing. At the present time we are discussing possible financial arrangements with interested parties.

The Company has been working on a comprehensive plan for a major land development project in the area of Metropolitan Toronto. We are very optimistic about the potential that this project could have on the Company's future and see great possibilities in this area. Since the year end we have in fact acquired approximately 500 acres of land for future development.

There have been several changes made in the Company's management and directorships. At the close of 1967, Mr. J.D. Fienberg and Mr. N. Zeldin resigned from active management. Mr. M. O'Donohue Q.C. of the law firm of Gardiner, Roberts, Anderson, Conlin, Fitzpatrick, O'Donohue & White was appointed to fill a vacancy on the Board of Directors resulting from the resignation of Mr. B. Sadowski, M.B.E. Mr. Walter Keyser of Gairdner & Company Limited was appointed to the Board of Directors to replace Mr. John S. Gairdner of the same firm. Mr. Zeldin and Mr. G.S. Horgan Q.C. will not be standing for re-election to the Board for the coming year.

Recently remodelled 'le spot' dining room, lounge and discotheque, shown here just before the lunch hour, is proving popular with patrons of the Regency Towers Hotel.

James McFarlane, Vice President, Construction, and Somer Rumm, Vice President, Land Development, check progress on Stubbswood Square subdivision in Agincourt.

I am most pleased that your Company has emerged from a period of problems with an improved financial position and with management that is capable, enthusiastic and hard working. We enjoy the confidence of our associates, suppliers and customers and I trust, our shareholders. You may be assured that we shall continue to make every effort to build your Company into a successful and profitable enterprise.

On behalf of the Board of Directors we wish to express our appreciation to the members of our staff for their efforts on behalf of the Company. We are also grateful to our associates and shareholders for their loyalty and support.

July 9, 1968

On behalf of the Board,

PRESIDENT

Louis Stulberg, Vice President and Secretary-Treasurer, and Vernon Howe, Vice President, Finance, discuss planned investment project.

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ASSETS

	1968	1967
Current assets		
Cash	$ 11,573	$ 120,966
Receivables	2,764,125	7,142,686
Deposits on land	142,242	150,942
Houses completed and under construction (including land) — at cost less mortgage advances received thereon (Note 2)	944,487	1,569,018
Real estate held for development and sale — at the lower of cost and estimated realizable value (Note 2)	3,152,579	2,725,597
Prepaid expenses and sundry assets	153,439	290,974
Total current assets (Note 9)	7,168,445	12,000,183
Mortgages receivable less allowance for loss	1,759,001	1,008,525
Sundry investments and advances (Note 1)	200,729	130,675
Investment properties — at cost (Note 3)		
Buildings	9,578,757	11,007,238
Equipment	737,592	799,576
Leasehold improvements	377,641	373,694
Parking lot	274,344	274,344
	10,968,334	12,454,852
Less accumulated depreciation and amortization	1,535,953	1,325,189
	9,432,381	11,129,663
Land	1,605,156	1,637,054
	11,037,537	12,766,717
Excess of cost over book value of investment in subsidiaries at date of acquisition	99,700	112,950
Unamortized financing costs and organization expense	478,860	534,880
	$20,744,272	$26,553,930

On behalf of the Board:

LAWRENCE SHANKMAN, Director

LOUIS STULBERG, Director

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ALANCE SHEET

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LIABILITIES

	1968	1967
Current liabilities		
Due to bankers (Note 4)	$1,923,414	$3,023,547
Accounts payable and accrued liabilities	1,428,230	2,070,856
Tenants' and other deposits	218,809	179,892
Mortgages and secured payables	1,997,885	2,826,474
6½% general mortgage bonds (Note 5)		1,474,000
Other long term debt due within one year (Note 5)	493,115	670,437
Total current liabilities (Note 9)	6,061,453	10,245,206
Advances from shareholders due September 10, 1968 ($136,330 included in current accounts payable in 1968)		143,824
Long term debt (Note 5)		
Mortgages payable on investment properties	8,479,061	9,756,526
6¼% sinking fund debentures due February 1, 1979	4,600,000	4,800,000
	13,079,061	14,556,526
Less portion due within one year	493,115	670,437
	12,585,946	13,886,089
Contingent liabilities (Note 7)		
Total liabilities	18,647,399	24,275,119

SHAREHOLDERS' EQUITY

Capital stock (Note 6) Authorized	Issued		1968	1967
988,100	288,100	First preference shares with a par value of $10 each — issuable in series—6% cumulative redeemable preference shares, Series A	2,881,000	2,881,000
6,000,000	3,669,126	Common shares without par value	2,317,589	2,317,589
Deficit			(3,101,716)	(2,919,778)
			2,096,873	2,278,811
			$20,744,272	$26,553,930

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CONSOLIDATED STATEMENT OF EARNINGS

For the year ended February 29, 1968

(with comparative figures for 1967)

	1968	1967
Revenue:		
Sales of real estate	$10,191,283	$14,353,574
Gross income from investment properties	3,184,325	2,835,800
Interest and sundry income	352,032	734,677
Excess of par value over cost of debentures purchased for cancellation (Note 5)	56,000	73,600
	13,783,640	17,997,651
Expenditures:		
Cost of real estate sold	9,199,298	13,266,157
Operating expenses of investment properties (excluding interest and depreciation)	2,113,655	1,952,964
Selling, general and administrative expenses	571,368	858,000
Interest expense (Note 11)	1,413,029	1,425,251
Depreciation and amortization of leasehold improvements	329,561	356,359
Amortization of financing costs	86,667	79,651
	13,713,578	17,938,382
Earnings for the year	$ 70,062	$ 59,269

CONSOLIDATED STATEMENT OF DEFICIT

For the year ended February 29, 1968

(with comparative figures for 1967)

	1968	1967
Deficit, beginning of year	$ 2,919,778	$ 2,935,832
Earnings for the year	70,062	59,269
	2,849,716	2,876,563
Dividends on preference shares (Note 6)		43,215
Provision to reduce mortgage (in default) received in a prior year to estimated realizable value	252,000	
Deficit, end of year	$ 3,101,716	$ 2,919,778

See accompanying notes to financial statements

consolidated building corporation limited

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

For the year ended February 29, 1968
(with comparative figures for 1967)

	1968	1967
Source of funds:		
Earnings for the year	$ 70,062	$ 59,269
Add — depreciation and amortization of leasehold improvements	329,561	356,359
— other non-cash charges	69,270	76,246
Funds from operations	468,893	491,874
Net book value of investment properties sold	3,684,717	1,300,218
Less — existing mortgages assumed by purchasers	(3,027,490)	(1,053,529)
— mortgages taken back on sales	(470,350)	
	186,877	246,689
New mortgage financing	400,000	
Total	1,055,770	738,563
Use of funds:		
Investment properties acquired	2,285,098	64,051
Less mortgages thereon assumed by Company	1,835,000	
	450,098	64,051
Increase in mortgages receivable arising from sales of real estate	607,346	252,000
Reduction in non-current portion of shareholders' advances	143,824	19,506
Reduction in long term debt	507,653	1,184,108
Dividends on preference shares		43,215
Other	(5,166)	25,868
Total	1,703,755	1,588,748
Decrease in working capital	647,985	850,185
Working capital, beginning of year	1,754,977	2,605,162
Working capital, end of year	$1,106,992	$1,754,977

AUDITORS' REPORT

To the Shareholders of
Consolidated Building Corporation Limited:

We have examined the consolidated balance sheet of Consolidated Building Corporation Limited and subsidiary companies as at February 29, 1968 and the consolidated statements of earnings, deficit and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the companies as at February 29, 1968 and the results of their operations and the source and use of their funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
July 9, 1968

CLARKSON, GORDON & CO.
Chartered Accountants

consolidated building corporation limited

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

February 29, 1968

1. *Principles of consolidation*

The accounts of all subsidiary companies have been included in the consolidation. The Company's investment in four joint ventures is carried at the value of its equity therein in the item "Sundry investments and advances" in the accompanying balance sheet.

2. *Real estate held for development and sale, and houses completed and under construction*

These include the cost of land, land improvements, building construction and establishment costs and all carrying charges less mortgage advances of $1,305,600 received with respect to house construction inventories. The Company's accounting procedures relating to land and house construction inventories provide for the immediate write-off of any costs which are not recoverable from the profits on future sales. Accordingly, the carrying value of these inventories is less than estimated realizable value.

3. *Investment properties*

The Company constructs and operates properties of an investment nature, some of which may be sold from time to time, when, in the judgment of the Board of Directors, such sales are in the Company's best interest. These properties are carried at cost including mortgage interest, property taxes, legal fees and certain overhead expenses capitalized during the construction and initial leasing periods.

4. *Bank indebtedness*

The Company and a subsidiary have issued and deposited with their bankers as collateral security, demand debentures in respect to the bank loans and letters of credit outstanding. These debentures are secured by a first floating charge on the assets of the Company. In addition, there is a general assignment of accounts receivable and certain mortgage receivables have been assigned to the bankers.

5. *Funded debt*

Mortgages payable on investment properties include principal repayments due over the next five years as follows:

Year ending February 28, 1969	$ 293,115
Year ending February 28, 1970	431,354
Year ending February 28, 1971	2,528,661
Year ending February 29, 1972	184,768
Year ending February 28, 1973	177,261

The 6½% general mortgage bonds issued by Don Valley Village Limited, a wholly owned subsidiary, were repaid during the year ended February 29, 1968.

The 6¼% sinking fund debentures, Series A are unsecured and were issued by the Company pursuant to a trust indenture dated January 15, 1964, which provides that the Company is to retire by means of a sinking fund, $200,000 on February 1, 1969 and 1970, increasing to $400,000 on February 1 in each of the years 1971 to 1975 inclusive, and to $700,000 in each of the years 1976 and 1978. $200,000 principal amount of debentures was purchased for cancellation prior to February 1, in each of the years 1967 and 1968.

The trust indenture also provides that dividends on common shares may only be paid from the total of the consolidated net earnings subsequent to August 31, 1963 plus the net cash proceeds to the Company of the issue, after August 31, 1963, of any of its shares. As a result of this provision, the total of consolidated net earnings subsequent to February 29, 1968 and net cash proceeds from the issue of shares after that date will have to amount to approximately $7,000,000 before dividends may be paid on common shares.

The trust indenture provisions do not apply to prevent the payment of dividends on the 6% cumulative redeemable preference shares, Series A.

6. *Capital stock*

Series A first preference shares:

Under certain conditions attaching to the first preference shares, the Company is required to set aside the amount of $150,000 annually with an overall limitation of $300,000 at any one time as a purchase fund for the purchase and cancellation of the preference shares. The amount set aside is to be applied as soon as practicable to the purchase of the Series A preference shares in the market, subject to certain price limitations. Subsequent to May 1963, the Company has not complied with this condition.

As at March 1, 1968, dividends on preference shares were in arrears to the extent of seven quarterly payments or $302,505. No dividends may be paid on common shares while preference share dividends are in arrears.

As long as dividends on the preference shares are in arrears to the extent of six or more quarterly payments, the holders of the preference shares shall be entitled to one vote in respect of each preference share held and in addition, voting separately and exclusively as a class, to elect three members of the Board of Directors of the Company.

Common shares :

Share purchase warrants are outstanding which entitle the bearer to purchase common shares of the Company at any time up to and including June 30, 1969 at a price of $13 for three common shares to June 30, 1968 and $14 per three shares until June 30, 1969, at which time the share purchase warrants expire. No shares were issued during the year. At February 29, 1968, 305,874 of the authorized and unissued common shares were reserved for possible issue on exercise of the rights attached to the outstanding share purchase warrants.

7. *Commitments and contingent liabilities*

The Company leases certain premises under a long term lease arrangement requiring an approximate annual rental of $242,000, exclusive of real estate taxes, insurance, maintenance, and repairs which are estimated at approximately $190,000. Rental income from these premises is estimated at $410,000 for the year ending February 28, 1969. The lease contains an option to purchase the leased premises.

The Company has entered into an agreement with the Town of Oakville to service and build houses on 370 lots in the Municipality. The selling prices of these houses has been fixed, subject to adjustments if construction costs increase above present levels in the industry.

Subsequent to February 29, 1968 the Company completed the purchase of 410 acres of land near Metropolitan Toronto for a total price of $2,500,000 payable to the extent of $250,000 cash on closing (including a $50,000 deposit made prior to February 29, 1968) and the balance over a fifteen year period.

Subsequent to the year end, the Company has also acquired for $10,000 cash an option to purchase 97 acres in a municipality near Metropolitan Toronto. It is estimated that this land will produce approximately 500 serviced building lots for a total cost of approximately $3,500,000.

The Company is involved in a land assembly project in Metropolitan Toronto under joint venture arrangements on which the total purchase and development costs are estimated to be $1,400,000. At February 29, 1968 the land purchases had been completed. The financing to date has been borne by the Company's partner in the project.

The Company has lodged letters of credit aggregating $875,000 with municipalities as security for the fulfilment of its obligations under certain subdivision agreements.

The Company is jointly and severally liable on a mortgage on the Don Valley Shopping Centre in the amount of $720,000, which is payable by a joint venture in which the Company has a 50% interest.

The Company is a party to an action with respect to certain building lots in the Province of Quebec which, if unsuccessful, could result in a loss to the Company of approximately $200,000. No provision has been made in the accounts for this possible loss, as in the opinion of management, the Company has a valid claim.

8. *Income taxes*

It is the Company's practice to claim maximum capital cost allowances for tax purposes which are in excess of recorded depreciation and to claim in the year incurred, interest and other carrying charges which are capitalized in the accounts. In addition, the Company has deferred certain real estate profits within the limits permitted by the taxation legislation. Such excess capital cost allowances, interest and other costs and deferred real estate profits, estimated at approximately $2,600,000 at February 29, 1968 are available for application against future years' income for tax purposes. Income taxes otherwise payable on the year's earnings have been eliminated by application of prior years' losses.

9. *Current assets and liabilities*

All real estate held is available for current sale or development and accordingly the carrying value of these assets has been included in current assets. The mortgages payable thereon, some of which have a two year term or longer, have been included in current liabilities. Receivables which include balances due within a two year period on land sales have also been classified as current assets in the accompanying balance sheet.

10. *Comparative figures*

Certain of the 1967 figures in the accompanying financial statements have been reclassified for comparative purposes.

11. *Statutory information*

The aggregate direct remuneration paid by the Company and its consolidated subsidiaries in the 1968 fiscal year to directors and senior officers amounted to $125,000. Interest on debt initially incurred for a term of more than one year totalled $1,247,000 in the year.

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